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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, June 29, 2001

PETITION OF

VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUA010025

and

DOMINION TRANSMISSION, INC.

For approval of a pipeline construction contract
and pipeline operation and maintenance agreement
under Chapter 4, Title 56, of the Code of Virginia and
for expedited consideration

ORDER GRANTING APPROVAL

On May 21, 2001, Virginia Electric and Power Company (“Dominion Virginia Power” or the “Company”) and Dominion Transmission, Inc. (“DTI”), filed a petition with the Commission under Chapter 4, Title 56, of the Code of Virginia for approval of a Pipeline Construction Contract between Dominion Virginia Power and DTI (the “Construction Contract”) for the construction of natural gas pipeline facilities (“New Gas Facilities”) needed to receive and deliver natural gas to Dominion Virginia Power’s Possum Point Power Station (the “Station”). The Company also requests approval of a Pipeline Operation and Maintenance Agreement between Dominion Virginia Power and DTI (the “O&M Agreement”) for the operation and maintenance of the New Gas Facilities. The Company requests expedited consideration of the petition.

On June 27, 2001, and June 28, 2001, Dominion Virginia Power filed revisions to both the Construction Contract and the O&M Agreement.

On March 12, 2001, the Commission issued an order in Case Nos. PUE000343 and PUF000021, authorizing Dominion Virginia Power to construct and operate a new natural gas-fired, combined cycle power generation facility at the Station in Prince William County, Virginia. This proposal was part of an environmental improvement project for the Station under which Units 1 and 2, which currently burn fuel oil, will be taken out of service. Units 3 and 4 will be converted from coal to natural gas, and the new combined cycle facility, Unit 6, will burn natural gas. Dominion Virginia Power represents that the project is a critical part of its efforts to improve air quality and meet proposed air emissions limitations in Northern Virginia. The March 12 Order also authorized Dominion Virginia Power to participate in a synthetic lease arrangement to finance construction of Unit 6.

Construction Contract

The Construction Contract is the form of agreement under which DTI will perform for Dominion Virginia Power all of the activities (including clearing, permitting, designing, rights-of-way acquisition services, and installing) required to complete the New Gas Facilities so they are capable of being placed in service on or before October 1, 2002. Pursuant to the Construction Contract, as revised by the Company's filing with the Commission on June 28, 2001, the total estimated price for the New Gas Facilities is \$24,275,000. According to Dominion Virginia Power's June 28, 2001, submission, the revised estimate of \$24,275,000 reflects net increases for thicker wall pipe, more extensive directional drilling, and assumes the addition of over-pressure protection facilities at the Cove Point interconnect. Such facilities may be required to meet the maximum operating pressure limitation prescribed in the Commission's

Order Granting Preliminary Approval issued on June 20, 2001, in Case No. PUE000741.

However, Dominion Virginia Power proposes to reimburse DTI for the actual cost of such services, subject to substantiation by DTI and approval by Dominion Virginia Power.

Dominion Virginia Power's Construction Contract with DTI will terminate on the earlier of: (1) three years from the date of execution; or (2) the date on which Dominion Virginia Power deems the New Gas Facilities to have been properly installed in accordance with design specifications. However, if DTI fails to begin meaningful construction by July 1, 2002, Dominion Virginia Power has the right to terminate the Construction Contract. In connection with the revised cost estimates previously described, Dominion Virginia Power filed a revised Construction Contract, reflecting the right to add overpressure protection equipment and related costs to the pipeline project.

O& M Agreement

The O&M Agreement is the form of agreement under which DTI will operate, maintain, and repair the New Gas Facilities so that the New Gas Facilities will be used in a safe, efficient, and economical manner for receipt, delivery, measurement, and transportation of gas. According to the terms of the O&M Agreement, Dominion Virginia Power will pay DTI a management fee, estimated to be \$82,995 per year. However, Dominion Virginia Power will reimburse DTI for actual costs, subject to substantiation by DTI and approval by Dominion Virginia Power. The O&M Agreement begins on the date of execution and continues until December 31, 2004, subject to automatic renewal unless either party provides 180 days' notice to the contrary. In connection with the revised cost estimates previously described, Dominion Virginia Power filed a revised O&M Agreement reflecting possible inclusion of the overpressure protection equipment and related costs.

THE COMMISSION, upon consideration of the petition and representations of Dominion Virginia Power and having been advised by its Staff, is of the opinion and finds, that with the conditions and modifications detailed herein, the Construction Contract and the O&M Agreement, as modified by the Company's revisions to the same filed with the Commission on June 27, 2001, and June 28, 2001, are in the public interest and should be approved.

In reviewing the two agreements in this case, Staff expressed concerns whether Dominion Virginia Power would be able to obtain and maintain ultimate control over the New Gas Facilities under the terms and conditions contained in the Construction Contract and the O&M Agreement and regarding the appropriate pricing (estimated as opposed to firm) incorporated in these agreements. As a result of Staff's concern over Dominion Virginia Power's ability to obtain and maintain control over such facilities, Dominion Virginia Power agreed to revise the language in both of the Construction Contract and the O&M Agreement to

address these issues. On June 27, 2001, and on June 28, 2001, Dominion Virginia Power filed a revised Construction Contract and a revised O&M Agreement incorporating the agreed upon language to address Staff's concerns about control and clarifying the amounts that the Company estimates for construction of the pipeline and its associated facilities.

We note that the other two issues, pricing under both the Construction Contract and the O&M Agreement are at actual costs. We find that this is appropriate as long as costs are less than market. Therefore, pricing should be at the lower of cost or market. We also believe that the revised estimated prices of \$24,275,000, under the Construction Contract and \$82,995 per year under the O&M Agreement should be the upper limit that Dominion Virginia Power can pay DTI. If additional costs are incurred by DTI pursuant to the Construction Contract and the O&M Agreement, Dominion Virginia Power and DTI shall file for approval to reimburse DTI for such costs consistent with the procedure detailed herein.

Accordingly, IT IS ORDERED THAT:

- 1) Pursuant to § 56-77 of the Code of Virginia, Dominion Virginia Power is hereby granted approval to enter into the Construction Contract and the O&M Agreement, as revised in its filings with the Commission made on June 27, 2001, and June 28, 2001, under the terms and conditions and for the purposes as described herein, subject to the modifications detailed herein.
- 2) Dominion Virginia Power shall pay DTI the lower of cost or market for services rendered under the Construction Contract and the O&M Agreement, up to a maximum of \$24,275,000 under the Construction Contract and up to a maximum of \$82,995 per year under the O&M

Agreement. Dominion Virginia Power shall file a new application for approval to reimburse DTI any amounts in excess of the foregoing amounts. Such application shall include, among other things, detailed justification for the increased costs.

- 3) Should any terms and conditions of the Construction Contract or the O&M Agreement change from those approved herein, additional Commission approval shall be required for such changes.
- 4) Dominion Virginia Power shall bear the burden of proving, during any rate proceeding, that it paid DTI the lower of cost or market for services received under each of the Construction Contract and the O&M Agreement.
- 5) The approval granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and -80 of the Code of Virginia hereafter.
- 6) The Commission reserves the authority to examine the books and records of any affiliate of Dominion Virginia Power, including DTI, in connection with the Construction Contract and the O&M Agreement approved herein whether or not the Commission regulates such affiliate.
- 7) Within thirty (30) days of this order, Dominion Virginia Power shall submit a revised executed copy of the Construction Contract and the O&M Agreement, incorporating the modifications filed with the Commission under cover letter of counsel dated June 27, 2001, and June 28, 2001.

- 8) Dominion Virginia Power shall include the Construction Contract and the O&M Agreement approved herein in its Annual Report of Affiliated Transactions submitted to the Director of Public Utility Accounting.
- 9) The approval granted herein shall have no implications for ratemaking purposes.
- 10) There appearing nothing further to be done in this matter, it hereby is dismissed.